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## Budget Edition

**December 2008**

### Business Taxes – Main Points

- The full rate of corporation tax for the Financial year 2010 starting 1 April 2010 will remain 28%
- The small company rate for financial year 2009 starting 1 April 2009 will remain 21%. It is expected that the rate will increase to 22% from 1 April 2010.
- Although announced as a doubling of the rate of writing down allowance, the change to capital allowances is to allow a one year First year allowance on the main capital allowances pool for expenditure on or after 1 April 2009 for companies and 6 April 2009 for other businesses. The FYA will be available to companies, individuals and all partnerships. It will not apply to cars or assets used for leasing. It will not be relevant to those spending less than £50,000 a year on capital equipment as AIA will cover the expenditure.
- The loss carry back rules announced in the Pre Budget report have been improved by the extension of the loss making period from one to two years. For companies, losses arising in corporation tax accounting periods ending between 24 November 2008 and 23 November 2010 will be available for a three year carry back. For income tax, losses arising in 2008/09 and 2009/10 will benefit from the extended carry back rules. The restriction on relief of £50,000 of the loss to be carried back by more than one year will apply to each loss making period separately, but the £50,000 is an annual limit so short loss making periods will be restricted. Repayments of tax as a result of this measure can be made with effect from Budget day.
- The Business Payment Support Scheme is being refined to permit Time to Pay applications to reflect current period losses which will be carried back against previous profits. Applications to reduce tax outstanding can be made before the end of the loss making period, even though the loss is not at that time ascertained.
- Capital Allowances on cars have been reformed as promised in the Pre Budget report, with the final draft legislation published. In summary this allows cars emitting no more than 160g/km to be included in the main pool (but not to attract AIA) and cars emitting more than that to be included in the special rate pool. Restrictions on lease payments will apply to higher emitting cars and to shorter term hire periods in excess of 45 days. Motorcycles will no longer be treated as cars, and so will qualify for AIA. There are anti avoidance rules to prevent the rules being circumvented (including through the use of single asset leasing companies within groups).
- The measures proposed during the last 12 months to deal with the taxation of foreign profits earned by companies have been finalised. The proposed changes take into account representations made during the final stage of the consultation and will affect the taxation of foreign dividends -which will be largely exempt from UK corporation tax - and tax deductions for interest – which will effectively be capped for larger companies. There will also be some associated reform of the CFC rules.
- The "three line account" limit for self assessment returns will be increased to align with the VAT registration threshold from 2009/10 (2010 returns) and this relationship will be maintained. The limit will apply to both trading income and rental businesses, and to both individual and partnership returns. Concerns about the increased risk of filing limited information were dismissed by HMRC. The contribution to risk assessment of the more detailed accounts is said to be negligible.



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### **Company Car Tax**

The tax rules for company cars will change from April 2011 as follows. The cap on list price of £80,000 will be abolished, meaning that those with very high value cars will pay more tax on them as a benefit in kind. The lower threshold to which the 15% rate of benefit applies will be reduced from the current level of 135g/km to 125g/km. We had already been told that this would be 130g/km for 2010/11. Discounts for alternative fuel vehicles will all be abolished, and replaced by a single new rate of 9% applying to electrically propelled cars registered from 1998 onwards. All other cars will be taxed by reference only to their emissions.

## Surprise repeal of the Furnished Holiday letting rules

The beneficial tax treatment afforded to Furnished Holiday Lettings (FHL) in the UK extends to favourable treatment of losses – permitting them to be set against other income in the same way as trading losses – and capital gains tax, meaning that FHL properties are treated as trading rather than investment properties, attracting Entrepreneurs' Relief, hold over relief and other business CGT reliefs. FHL profits also count as pensionable income. Owners can also claim capital allowances on equipment and furniture, which is not possible in respect of investment properties.

It is now apparent that the restriction of this beneficial treatment to properties in the UK rather than the European Economic Area is likely to be contrary to European law. HMRC now accept this point, but as a result will be repealing the Furnished Holiday Letting rules (including those applying in the UK) with effect from April 2010. This is no surprise, otherwise the tax authority would be flooded with claims on foreign holiday homes which meet the FHL rules (which are, admittedly quite restrictive).



*"TO MAKE A LONG STORY SHORT, THE GENERALLY ACCEPTED ACCOUNTING PRACTICES WEREN'T AS GENERALLY ACCEPTED AS I THOUGHT."*

## Personal Taxes – Main Points



- Personal allowances and tax bands were, as expected, unchanged from those announced in November as part of the Pre Budget Report.
- The higher rate of income tax will now be 50% rather than the 45% previously announced. Dividends within this band of income will be taxed at 42.5%. This will apply to taxable income above £150,000 from April 2010 and not 2011 as announced in November 2008.
- From April 2010 the rate applicable to trusts will rise from 40% to 50%, with a dividend trust rate of 42.5%.
- From April 2010 individuals with "adjusted net income" of £100,000 will lose £1 of personal allowance for every £2 their income exceeds this limit. The adjusted net income is calculated in the same way as for the restriction of allowances applying to taxpayers over 65, which deducts losses and grossed up pension contributions and gift aid payments from gross income. It was originally intended to withdraw allowances in two slices at £100,000 and £140,000 – the taxpayer losing half the allowances in each slice. This will now be a single adjustment to the allowances applying at £100,000.
- Some tax charges applying to registered pension scheme taxable events are linked to the higher rate of income tax. These will therefore be made at 50% from 2010 rather than 40%.
- The rate of tax relief on pension contributions will be restricted from 6 April 2011 for those with incomes of £150,000 or more. The relief will be restricted to basic rate, which is normally given at source. There is also to be an anti forestalling measure to prevent those with income in excess of £150,000 from accelerating their pension contributions into the period between now and April 2011, to gain the benefit of tax relief at 40% or 50%.
- Personal allowances can be claimed by non resident taxpayers under certain circumstances. The right of Commonwealth citizens to claim personal allowances in the UK is to be withdrawn from April 2010 as it is not compliant with human rights legislation. Most claimants will be able to claim on other grounds.
- The ISA limit will increase to £10,200 from 2009/10 for those aged 50 or more, and the new limit will apply to all savers from 2010/11. The cash limit within the overall limit will be £5,100.
- Improvements have also been made to the EIS scheme, in particular to extend the carry back rules by removing the limits which permit only half of the amount invested to be carried back, subject to an upper limit of £50,000.



## Quiz

**A puzzle for you to ponder this time.  
As usual answers to [sam@haywardwright.co.uk](mailto:sam@haywardwright.co.uk)**

44 countries of the world are without direct access to the sea and therefore shipping trade. These are known as land locked countries and do not have a coastline. Can you name all 44?

Also for a bonus, 2 of these are double landlocked because they are surrounded by countries that are also landlocked, which are they?

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